

Message Text

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ACTION EUR-25

INFO OCT-01 ISO-00 AEC-11 AID-20 CEA-02 CIAE-00 CIEP-02

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INT-08 L-03 NSAE-00 NSC-07 OMB-01 PM-07 RSC-01 SAM-01

SCI-06 SP-03 SS-20 STR-08 TRSE-00 SAJ-01 PRS-01 PA-04

USIA-15 NEA-10 EA-11 ACDA-19 COA-02 DLOS-07 CEQ-02

EPA-04 CG-00 DOTE-00 FAA-00 IO-14 AGR-20 MC-02 DRC-01

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R 011009Z MAY 74

FM AMEMBASSY OSLO

TO SECSTATE WASHDC 8150

INFO AMEMBASSY COPENHAGEN

AMEMBASSY HESLINKI

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY STOCKHOLM

USMISSION NATO

C O N F I D E N T I A L SECTION 1 OF 2 OSLO 1745

EO 11652: GDS

TAGS: ENRG TECH MASS ETRN EAGR NO

SUBJECT: NORWEGIAN OIL POLICY AND U.S. INTERESTS, PART II

REF: OSLO 1744

1. IN PART I, WE EXAMINED THE VARIOUS WAYS IN WHICH
WE MIGHT WISH TO MODIFY NORWEGIAN OIL POLICY AND THE
PRACTICAL DIFFICULTIES WHICH WOULD NEED TO BE OVERCOME.

WE ATTEMPT BELOW TO IDENTIFY SOME OF THE INDUCEMENTS
WHICH MIGHT BE USED TO SUPPORT SPECIFIC U.S. OBJECTIVES

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INVOLVING NORWEGIAN OIL.

2. MORE OIL FROM NORWAY.

A. FOR THE U.S. IF WE DETERMINE THAT WE SHOULD TRY TO ENSURE OURSELVES A GUARANTEED SUPPLY OF NORWEGIAN OIL AND/OR GAS AFTER 1980, THE LEAST CONTROVERSIAL APPROACH WOULD BE TO NEGOTIATE A DIRECT AGREEMENT WITH STATOIL FOR X MILLION BARRELS A YEAR. AN AGREEMENT TO PAY IN GOODS RATHER THAN CASH WOULD BE LESS INFLATIONARY (SEE BELOW UNDER "COMMODITIES"). A CONCRETE PROPOSAL OF THIS KIND, IF ATTRACTIVE, IS THE SORT OF PRAGMATIC APPROACH WHICH MIGHT PERSUADE THE NORWEGIANS TO ACCELERATE THE RATE OF PRODUCTION TO RESPOND TO A SPECIFIC CUSTOMER NEED. IT WOULD BE MORE CONTROVERSIAL AND COMPLICATED BUT MIGHT ALSO BE POSSIBLE TO OFFER SOME NON-INFLATIONARY INDUCEMENT (E.G. COMMODITY SALES, POLICY CONCESSION) IN EXCHANGE FOR PERMITTING AN AMERICAN COMPANY TO EXPLORE FOR AND PRODUCE AN AGREED QUANTITY OF OIL PER YEAR.

B. FOR EUROPE. SINCE WESTERN EUROPE NEEDS NORWEGIAN OIL MORE THAN THE U.S., IT IS LOGICAL THAT PRIMARY PRESSURE FOR A MODIFICATION IN NORWEGIAN OIL POLICY SHOULD COME FROM EUROPE. NATO MAY NOT BE THE BEST FORUM IN WHICH TO RECEIVE THIS BUT NORWAY'S OIL POLICY COULD BE LOGICALLY DISCUSSED IN THE ENERGY COORDINATION GROUP OR THE OECD, SHOULD OUR WESTERN EUROPEAN ALLIES BE INTERESTED IN DOING SO. AGAIN, PROBABLY A MORE ACCEPTABLE APPROACH WOULD BE THE PRAGMATIC ONE OF HAVING INDIVIDUAL WEST EUROPEAN COUNTRIES WORK OUT THEIR SEPARATE "DEALS" WITH NORWAY, THEREBY PROVIDING CUMULATIVE POLITICAL LEVERAGE FOR AN UPWARD ADJUSTMENT OF NORWAY'S PROJECTED LEVEL OF OIL AND GAS OUTPUT.

3. A ROLE FOR PRIVATE ENTERPRISE

A. INFORMING THE PUBLIC. WE HOPE THAT THE PARLIAMENTARY DEBATE THIS SPRING WILL HIGHLIGHT THE ARGUMENTS THAT:
(I) THE DEVELOPMENT OF A LARGE NORWEGIAN OIL INDUSTRY WILL INEVITABLY PLACE A GREATER PRESSURE ON LOCAL LABOR
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AND OTHER RESOURCES THAN RELIANCE ON FOREIGN COMPANIES;
(II) POTENTIALLY THE MOST DANGEROUS COURSE IS TO BUILD UP A STATE OIL INDUSTRY, WITH BUILT-IN NATIONALISTIC AND BUREAUCRATIC PRESSURE FOR EXPANSION, AT A TIME WHEN OIL AND GAS MAY, OVER THE LONGER TERM, BECOME EITHER A GLUT ON THE MARKET OR BE REPLACED BY OTHER FUELS; A PROPER BALANCE BETWEEN STATE AND FOREIGN OIL PRODUCTION FACILITES WOULD REDUCE THE RISK; (III) THE RISK AND

COST OF OFFSHORE EXPLORATION MAKE USE OF FOREIGN COMPANIES AND VENTURE CAPITAL ATTRACTIVE. EFFECTIVE ARGUMENTATION COULD BE CHanneled DISCREETLY BY U.S. OIL COMPANIES TO NORWEGIAN OPPONENTS OF STATOIL, BUT THE U.S. HAND MUST NOT SHOW.

B. APPEALING TO THE CUSTOMER. U.S. INDUSTRY HAS SHOWN IN THE CASE OF THE PRESENT NORTHROP EFFORT TO SELL AIRCRAFT, THAT IT CAN PUT TOGETHER AN ATTRACTIVE PACKAGE APPEALING TO THE SPECIFIC NATIONAL CUSTOMER. IN THIS CASE, THE CUSTOMER IS VERY HARD TO PLEASE. BUT IT SHOULD NOT BE BEYOND THE IMAGINATION AND RESOURCES OF SOME COMPANIES TO PUT TOGETHER A PROPOSAL WHICH WOULD COMBINE THE ELEMENTS OF PROMOTING A NORWEGIAN OIL EFFORT (JOINT OWNERSHIP) AND PROMOTION OF DEVELOPMENT IN ONE OF THE UNDERDEVELOPED REGIONS IN WHICH THE GOVERNMENT IS INTERESTED, WITH SPECIFIC PROPOSALS FOR MINIMIZING SOCIAL AND INFLATIONARY IMPACT. ANY PROPOSAL MUST HAVE APPEAL TO THE POLICY-MAKING OFFICIALS IN OSLO AS WELL AS THE LOCAL AUTHORITIES, WHO SHOULD NEVERTHELESS BE ENCOURAGED TO LOBBY WITH APPROPRIATE OFFICIALS AT THE CENTER.

C. SHIPPING. SHIPPING FIRMS, AT LEAST, ARE AWARE OF THE CONFLICT BETWEEN THEIR OWN INTEREST IN THE OIL TANKER AND LNG TRADE AND NORWAY'S POLICY OF APPLYING RESTRICTIONS TO FOREIGN OIL COMPANIES WHICH PLAY A ROLE COMPARABLE TO SHIPPING IN ALLIED ECONOMIES. IF WE WERE PREPARED TO OFFER NORWAY A DEAL, GUARANTEEING SOME PERCENTAGE OF U.S. CARRIER TRADE OR SHARING ACCESS TO THIRD-COUNTRY CARGOES, WE SHOULD BE IN A BETTER POSITION TO BARGAIN FOR SOME PERCENTAGE OF THE NORWEGIAN OIL BUSINESS.

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THE OIL COMPANIES, IF THEY WERE TO FORM A UNITED FRONT, WOULD HAVE THE MOST LEVERAGE BY A THREAT TO REFUSE TO CHARTER NORWEGIAN TANKERS IF NORWAY REFUSES TO RESPECT THEIR INTERESTS--BUT THE ACCENT SHOULD PREFERABLY BE ON THE POSITIVE.

4. COMMODITY SALES. WE COULD ENVISAGE THE SALE OF SPECIFIC U.S. COMMODITIES: EITHER AS A SWEETENER TO OBTAIN CERTAIN CONCESSIONS IN THE AREA OF OIL POLICY; OR AS AN AIM IN ITSELF TAKING ADVANTAGE OF NORWAY'S OIL REVENUES OR ENERGY FOR EXPORT.

A. AGRICULTURAL PRODUCTS--NORWAY IS DEPENDENT ON IMPORTS FOR ALL ITS SUGAR, COTTON, TOBACCO AND OIL SEEDS AS WELL AS A LARGE SHARE OF FOOD

GRAINS, ANIMAL FEED, FRUIT AND VEGETABLES. THE U.S.
HAS ABOUT A 30 PERCENT SHARE OF THIS IMPORT MARKET. NORWAY
HAS SHOWN CONSIDERABLY CONCERN ABOUT PRICES AND
POSSIBLE SHORTAGE OF SUGAR, GRAINS, AND COTTON, AND WE
MIGHT CONSIDER OFFERING NORWAY A COMMITMENT FOR LONG-TERM
SUPPLY OF THESE PRODUCTS AT RELATIVELY STEADY PRICES IN
EXCHANGE FOR NORWEGIAN ENERGY OR ACCESS TO IT.

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FM AMEMBASSY OSLO

TO SECSTATE WASHDC 8151

INFO AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY REYKJAVIK

AMEMBASSY STOCKHOLM

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C O N F I D E N T I A L SECTION 2 OF 2 OSLO 1745

B. NUCLEAR AND OTHER FUELS--NORWEGIANS ARGUE
THAT THEY MUST HOLD BACK ON OIL AND GAS PRODUCTION
IN ORDER NOT TO SQUANDER WHAT MAY BECOME A SCARCE
COMMODITY IN THE FUTURE. THE ONLY ANSWER TO THIS

VIEW (WHICH STRIKES AT THE HEART OF OUR ARGUMENT THAT INVESTMENT OF OIL REVENUES WILL BRING A BETTER RETURN THAN KEEPING OIL IN THE GROUND) IS THE DEVELOPMENT OF ALTERNATIVE SOURCES OF ENERGY. SINCE NORWAY IS TALKING INCREASINGLY OF THE NEED TO DEVELOP NUCLEAR POWER PLANTS, USING SWEDISH TECHNOLOGY, WE HAVE BOTH AN ECONOMIC AND POLITICAL INCENTIVE TO OFFER NORWAY
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FUEL AND/OR REACTOR TECHNOLOGY ON ATTRACTIVE TERMS - IN EXCHANGE FOR SOME CONCESSIONS IN THE AREA OF OIL.

C. MILITARY EQUIPMENT--IT IS IN U.S. AND NORWEGIAN POLITICAL AS WELL AS SECURITY INTEREST TO BUY DEFENSE MATERIEL FROM THE U.S. THE LIMITATIONS AT THE PRESENT TIME ARE COST AND THE POLITICAL DIFFICULTY OF ALLOCATING SCARCE RESOURCES FOR MILITARY AS OPPOSED TO CIVILIAN PURPOSES GIVEN THE STRONGER POSITION OF THE LEFT IN THE STORTING. THESE LIMITATIONS WILL CIRCUMSCRIBE USE OF OIL AND GAS REVENUE FOR MILITARY SPENDING EVEN THOUGH WE CAN ARGUE THAT NORWEGIAN OFFSHORE MILITARY PROCUREMENT IS ANTI-INFLATIONARY. NORWAY HAS A REQUIREMENT TO MODERNIZE ITS DEFENSE FORCES. BUT INCREASES IN MILITARY SPENDING HAVE SCARCELY KEPT PACE WITH INFLATION; UNLESS THIS TREND IS REVERSED, THE DEFENSE BUDGET WILL DECREASE IN REAL TERMS. WHILE NORWAY'S BALANCE OF PAYMENTS DEFICIT IS ALSO EXPECTED TO RISE DURING THE NEXT TWO OR THREE YEARS TO PAY FOR NORTH SEA OIL AND GAS DEVELOPMENTS, REVENUES REALIZED FROM THIS OIL AND GAS IN 1980/81 MAY COME TO \$2.5 TO \$4 BILLION.

OF THE VARIOUS SUGGESTIONS PUT FORWARD ABOVE, PROBABLY THIS ONE IS THE MOST IMPORTANT. THE QUESTION IS WHETHER WE WOULD HAVE THE INTEREST, AND COULD FIND A WAY TO EXCHANGE NORWEGIAN GOVERNMENT-OWNED OIL AND GAS FOR U.S. SUPPLIED EQUIPMENT IN THE THREE MOST CRITICALLY NEEDED DEFENSE AREAS: FIGHTER AIRCRAFT, MORE FRIGATES TO PROTECT NORWAY'S CONTINENTAL SHELF AND WITH A HIGHER STATION KEEPING ABILITY THAT THE NORWEGIAN COASTAL FLEET NOW POSSESS, AND AIR DEFENSE EQUIPMENT TO INSURE THAT ALLIED REINFORCEMENTS COULD LAND IN NORWAY IN AN EMERGENCY. A MAJOR ADVANTAGE OF SUCH AN EXCHANGE WOULD BE THAT IT COULD TAKE PLACE OUTSIDE THE BUDGET AND THE TUG OF WAR FOR RESOURCES ITS DEBATE ENTAILS.

5. THIS TWO-PART MESSAGE WAS APPROVED BY THE AMBASSADOR IN DRAFT BEFORE HE DEPARTED POST. BUCHANAN

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